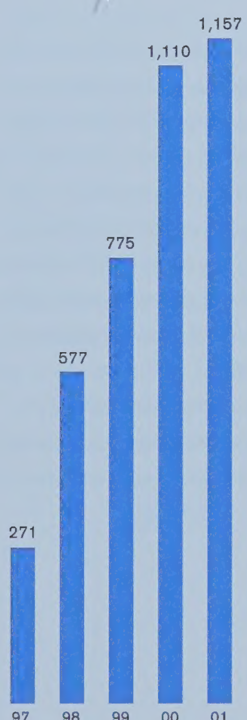
O&Y Properties Corporation

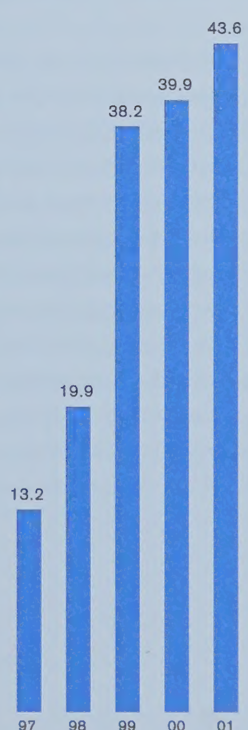
2001 annual report

2001 financial highlights

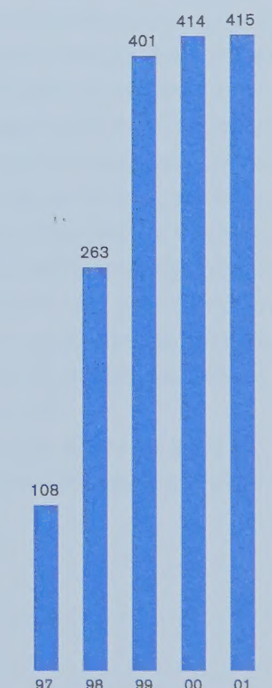
Year ended January 31 *(in millions except per share amounts and as noted)*	2001	2000
Assets	$ 1,157.4	$ 1,109.7
Cash flow from operations	$ 43.6	$ 39.9
Per common share (basic)	$ 0.89	$ 0.80
Per common share (fully diluted)	$ 0.82	$ 0.76
Net income	$ 47.7	$ 10.4
Debt-to-equity ratio	1.45:1	1.51:1
Number of shares (basic)	42.6	43.4
Shareholders' equity	$ 414.9	$ 414.0



Total assets
(in millions of dollars)
January 31



Cash flow from operations
(in millions of dollars)
January 31



Shareholders' equity
(in millions of dollars)
January 31

management's discussion and analysis of financial condition and results of operations

for the year ended January 31, 2001

This management's discussion and analysis should be read in conjunction with our financial statements and the notes thereto. Our fiscal year-end is January 31 and therefore references to "fiscal 2001" relate to the year ended January 31, 2001, and references to "fiscal 2000" relate to the year ended January 31, 2000.

Corporate overview

O&Y Properties Corporation ("OYPC") is a Canadian publicly held commercial real estate company that has traditionally focused on ownership and management and, more recently, development of high-quality office buildings. We have ownership interests in a portfolio of 18 office properties representing 7.4 million square feet in six Canadian markets, including the 2.7 million square foot Class AAA First Canadian Place office complex in downtown Toronto. We also own two active development sites – the Maritime Life Tower development project currently under construction in Toronto, and a half interest in the Place de Ville III site in downtown Ottawa. We are the country's largest provider of third-party commercial real estate management services, with over 100 million square feet under management, through our real estate services division, O&Y Enterprise.

Our strategy to build shareholder value combines an entrepreneurial and opportunistic style with conservative business principles – balancing risk and reward.

We have built a portfolio of owned properties with broad geographic asset distribution, tenancy diversification and a staggered lease expiry profile. We believe this portfolio represents a solid source of revenue and cash flow built on a stable capital platform with near-term and long-term growth potential and modest near-term exposure to risk.

Given the nature of our owned properties and the state of the capital markets, we recently announced that we filed a preliminary prospectus relating to the creation of a real estate investment trust, O&Y Real Estate Investment Trust ("O&Y REIT"). O&Y REIT will focus on investing in quality office buildings in major markets across Canada. Initially, O&Y REIT will be capitalized through an initial public offering of trust units of approximately $150 million and $165 million from O&Y Properties Inc. ("OYPI"), one of our subsidiaries, and will purchase 4.2 million square feet of our owned portfolio, representing 16 of the office buildings, for a combination of cash, debt and trust units. In addition, O&Y REIT will acquire an economic interest in First Canadian Place through a $55 million participating loan and advance a mezzanine development loan of $40 million in connection with the 441,000 square foot Maritime Life Tower development project presently being constructed by us at the corner of Queen and Yonge Streets in Toronto. O&Y REIT will also have an option to purchase at our development cost, upon completion, the Maritime Life Tower development.

We will have a significant ongoing interest in O&Y REIT, as the majority equity investor (holding an equity interest, after the transfer of our assets, in excess of 50%) and through the provision of various management services.

Going forward, we anticipate our business focus will be to grow the value of our portfolio owned through O&Y REIT, develop new office buildings in major commercial centres across Canada (which will be available for purchase by O&Y REIT following completion), build our real estate services business and increase the cash flow and long-term value of First Canadian Place.

Creating O&Y REIT shows our ongoing commitment and strategy to build and surface shareholder value. We believe that the market in Canada has shown that investors are interested in the monthly paying yield characteristics and tax treatment associated with the REIT structure for mature real estate assets. In addition, REIT units have tended to trade at values closer to the underlying net value of their assets, thereby avoiding the discount to net asset value being experienced by public real estate companies, like ourselves. The ability to access capital in the REIT market will give us the ability to fund future growth. That future growth will come through the acquisition of both mature office properties and those that we develop.

Business strategy

We have used a balanced approach to cash flow growth and value creation with the goal of balancing near-term returns with longer-term value growth. Our overall strategy has been to enhance the value of our assets, realize on the value, and then redeploy the capital generated into property development and other value-creating initiatives. The creation of O&Y REIT is an example of this business strategy.

We have traditionally generated cash flow through rental income from our rental properties and fee income from our real estate services business. Current and long-term cash flow growth has been produced by a combination of increasing our portfolio through our property development activities and through property acquisitions, increasing rents from contractual step-ups in lease rates and new leasing at higher rates, increasing our managed property portfolio, and prudently managing our financial leverage.

Our property ownership and real estate services businesses have contributed virtually all of our short-term cash flow and cash flow growth. Property ownership cash flow may be characterized as reasonably predictable with long-term leases in place. Real estate services cash flow comprises both predictable, recurring fee income with minimal capital employed as well as transaction-oriented fee business from activities such as leasing and project management. Property development activities represent our investment in future cash flow and net asset value growth.

Assuming O&Y REIT proceeds, we will generate cash flow through our proportionate share of the monthly cash distributions made by O&Y REIT, our continued ownership in First Canadian Place, our development activities and our real estate services business.

Business highlights of fiscal 2001

Consistent with our overall strategy, we completed a number of strategic transactions and commenced a number of key initiatives in fiscal 2001. In addition, fiscal 2001 marked our first full year of ownership of First Canadian Place, which had a very successful year, and is currently substantially fully leased.

- In April 2000, we refinanced Place de Ville II and Jean Edmonds Towers in Ottawa for $106 million, an increase of 40% over the financing previously in place. This generated new capital of $29 million.
- From the capital generated from the above-mentioned refinancing, we retired the balance of our First Canadian Place bridge loan of $8 million.
- In June, we sold our suburban Ottawa/Kanata portfolio for net proceeds of $19 million.
- On November 2, 2000, we broke ground on the Maritime Life Tower development project, our 441,000 square foot, 20-storey office tower at 2 Queen Street East in downtown Toronto, at the corner of Queen and Yonge Streets. We have pre-leased 150,000 square feet to Maritime Life, our anchor tenant. Construction is scheduled for completion in fall 2002.
- In Calgary, we completed a major retrofit and a 50,000 square foot conversion of previously non-income-producing space to income-producing office space at 840–7th Avenue South West. Substantially all of the newly created space is now committed for lease, affirming the success of this redevelopment program. In addition, the building is in the process of being connected to Calgary's Plus 15 System (elevated skywalk), which will further enhance the value of this property.
- During fiscal 2001, 661,000 square feet of leasing activity was completed at an average of $16.93 per square foot.
- In Ottawa, we obtained site plan approval for our Place de Ville III development project. This proposed office complex, comprising approximately 500,000 square feet, will proceed once sufficient pre-leasing and financing commitments are in place.
- Our real estate services business increased its property under management by approximately 7 million square feet. This included being awarded its first national facilities management contract, comprising approximately 5 million square feet.
- We launched two software systems developed in-house – Building Connect™ and Client Connect™ – which will allow real estate owners and tenants to request real estate services or download financial and property reports via the Internet.
- We repurchased a total of 1,043,700 shares at an average price of $4.53, for total consideration of $4.7 million, pursuant to our normal course issuer bid.

Property ownership

Our property portfolio consists of the following:

Property		Total GLA[1] (Sq. Ft.)	Interest of OYPC[2] %	GLA (Sq. Ft.)
Halifax	Purdy's Wharf	695,000	50%	347,500
Ottawa	Place de Ville I	617,500	100%	617,500
	Place de Ville II	667,000	100%	667,000
	Jean Edmonds Towers	648,000	100%	648,000
	Total	1,932,500		1,932,500
Toronto	First Canadian Place	2,676,000	100%	2,676,000
	18 King Street East	233,000	100%	233,000
	2/24 St. Clair Avenue West	238,000	100%	238,000
	40 St. Clair Avenue West	127,000	100%	127,000
	Total	3,274,000		3,274,000
Niagara Falls	Acres House	149,500	100%	149,500
Winnipeg	330 St. Mary Avenue	150,000	100%	150,000
	175 Hargrave Street	71,000	100%	71,000
	Total	221,000		221,000
Calgary	Altius Centre	305,000	50%	152,500
	840–7th Avenue	262,500	100%	262,500
	McFarlane Tower	243,000	100%	243,000
	Franklin Atrium	144,000	100%	144,000
	Franklin Building	51,000	100%	51,000
	Pembina Place	72,500	100%	72,500
	Mount Royal Place	56,000	100%	56,000
	Total	1,134,000		981,500
Total		7,406,000		6,906,000

(1) Includes office, retail, storage and archival space.

(2) All properties are held freehold, except for First Canadian Place where the land is leased until 2023, Place de Ville I where the land is leased until 2065 and 18 King Street East where the land is leased until 2067.

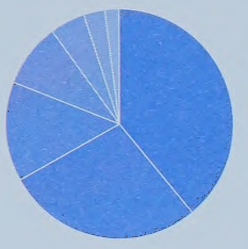
The ownership of rental properties has generated the largest portion of our cash flow, and at January 31, 2001, rental properties had a book value of approximately $1.0 billion.

In executing our business strategy for property ownership, our goal has been to produce predictable and growing rental property cash flow with a minimum of risk. In order to achieve this we have sought to maintain:

- broad geographic diversification of our assets among Canada's major urban centres;
- a mix of both high-quality tenants and Class A and Class B properties; and
- a diversified lease expiry profile and strong tenant covenants.

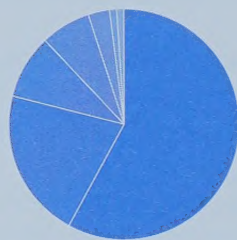
As at April 1, 2001, the portfolio distribution based on gross leasable area and gross revenue from rental properties is as follows:

Gross leasable area ("GLA")



- 39% First Canadian Place ("FCP")
- 28% Ottawa
- 14% Calgary
- 9% Toronto (excluding FCP)
- 5% Halifax
- 3% Winnipeg
- 2% Niagara Falls

Gross revenue from rental properties[1]

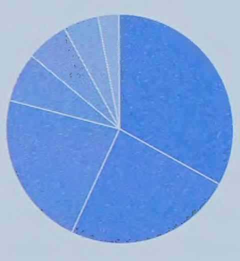


- 58% First Canadian Place ("FCP")
- 21% Ottawa
- 9% Toronto (excluding FCP)
- 7% Calgary
- 3% Halifax
- 1% Niagara Falls
- 1% Winnipeg

(1) Excludes parking and storage space revenue except for archival/storage space in Jean Edmonds Towers.

The tenant mix is distributed primarily among financial services, government and professional services industries, representing a stable and quality rental stream. The following charts show our tenant mix by gross revenue as at April 1, 2001, as well as our asset mix:

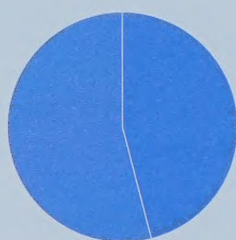
Tenant mix by gross revenue[1]



- 33% Financial Services and Insurance
- 24% Government
- 22% Professional Services
- 7% Telecommunications and Information Technology
- 6% Retail
- 5% Other
- 3% Energy/Resources

(1) Excludes parking and storage space revenue except for archival/storage space in Jean Edmonds Towers.

Asset mix by square feet



- 46% Class A
- 54% Class B

Lease data

During fiscal 2001, 661,000 square feet of leasing activity was completed across the portfolio at an average net rental rate of $16.93 per square foot. The overall occupancy rates for the portfolio at January 31, 2000 and 2001, and April 1, 2001, are as follows:

	Jan. 31, 2000 Leased[1]	Jan. 31, 2001 Leased[1]	April 1, 2001 Leased or Committed[1]	April 1, 2001 Avg. Lease Term Remaining[1]	April 1, 2001 Avg. Net Rent[2]
Halifax	93%	94%	92%	3.7 yrs.	$ 11.35
Ottawa	98%	99%	99%	5.5 yrs.	$ 13.20
Toronto (excluding First Canadian Place)	94%	95%	98%	4.1 yrs.	$ 15.10
First Canadian Place	94%	97%	98%	7.9 yrs.	$ 22.18
Niagara Falls	96%	97%	97%	3.6 yrs.	$ 5.44
Winnipeg	90%	75%	75%	3.1 yrs.	$ 9.94
Calgary	85%	85%	89%	3.3 yrs.	$ 11.15
Weighted average	93%	94%	95%	5.9 yrs.	$ 16.52

(1) Excludes storage space except for archival/storage space in Jean Edmonds Towers.
(2) Certain of the leases are based on semi-gross rents rather than on net rents. The rents shown are estimates of the equivalent to net rents.

The following table indicates the total occupied square footage of the portfolio subject to lease expiries during the period ending January 31, 2006 (assuming tenants do not exercise renewal options), the percentage of the total gross leasable area relating to the portfolio represented by such expiries and the estimated average net rental rate per square foot at the time of expiry.

Year	Total Sq. Ft.[1]	Expiry as a % of Total Portfolio GLA[1]	Avg. Net Rent Per Sq. Ft.[2]
April 1, 2001–January 31, 2002	318,203	4.6%	$ 13.30
2003	702,865	10.2%	$ 15.18
2004	369,658	5.4%	$ 16.81
2005	1,334,924[3]	19.3%	$ 16.64
2006	884,902	12.8%	$ 23.04

(1) Excludes storage space except for archival/storage space in Jean Edmonds Towers.
(2) Certain of the leases are based on semi-gross rents rather than on net rents. The rents shown are estimates of the equivalent to net rents.
(3) Includes 632,891 square feet in Jean Edmonds Towers.

Regional overview

Halifax

The Halifax real estate market has been the beneficiary of strong economic growth, with a vacancy rate in the downtown core of 8.0% at the end of 2000, down from 10.6% at the beginning of the year. As of the end of 2000, the vacancy rate for Class A space was 6.0%. Net rental rates per square foot are currently in the range of $16.00 to $19.00 per square foot for Class A space.

Purdy's Wharf is Halifax's premier office complex with total gross leasable area of 695,000 square feet. Situated directly on the waterfront, it is connected to the city's elevated pedway system, which links the property to the central business district. At April 1, 2001, it was 92% leased, generating an average net rent of $11.35 per square foot leased, which compares with a market rate of $17.00 per square foot for the building. Purdy's Wharf is home to several national and international companies that desire a prominent presence in Atlantic Canada. In January 2000, we increased our interest to 50% and we also became the property and leasing manager. During fiscal 2001, 86,000 square feet of leasing activity was completed at an average net rental rate of $15.51 per square foot in respect of our interest.

Year ending January 31	2002[2]	2003	2004	2005	2006
Sq. ft. expiring[1]	20,551	72,327	36,682	69,888	51,343
Rent on expiring space[1]	$ 144,030	$ 475,373	$ 487,856	$ 797,349	$ 713,878
Rent per sq. ft. on expiring space	$ 7.01	$ 6.57	$ 13.30	$ 11.41	$ 13.90
% of GLA[1]	5.9%	20.8%	10.6%	20.1%	14.8%

(1) Represents our ownership interest.
(2) From April 1, 2001, to January 31, 2002.

Ottawa

The Ottawa central business district continues to be dominated by federal government tenancies. The overall vacancy rate posted at the end of 2000 for the downtown core was 4.7% compared with 8.4% at the beginning of 2000. Net rental rates for Class B space range from $14.00 to $20.00 per square foot.

The downtown Ottawa office portfolio comprises almost 2 million square feet among three complexes – Place de Ville I, Place de Ville II and Jean Edmonds Towers. As of April 1, 2001, the portfolio had an overall occupancy rate of 99%, most of which represents government tenancies.

As of April 1, 2001, Place de Ville I was 100% leased, generating average net rent of \$8.92 per square foot leased, which compares with a market rate of \$17.50 per square foot for the building, while Place de Ville II was 96% leased, generating average net rent of \$15.04 per square foot leased, which compares with a market rate of \$17.50 per square foot for the building. Jean Edmonds Towers was also 100% leased as of April 1, 2001, generating average net rent of \$15.68 per square foot leased, compared with a market rate of \$17.00 per square foot for the building.

During fiscal 2001, 74,000 square feet of leasing activity, a significant portion of which was negotiated in fiscal 2000, began generating revenue in the Ottawa portfolio at an average net rental rate of \$11.96 per square foot.

In Place de Ville II, all of the office space and most of the storage area is leased to the federal government pursuant to a long-term lease expiring in 2008. The rental rate associated with the lease will reduce by \$6.97 per square foot on November 1, 2003, for the remaining five years of the term.

In the Jean Edmonds Towers, the federal government has leased 100% of the office and archival storage space and a portion of the retail space until December 2004. Given the current supply imbalance in downtown Ottawa and future government space needs, we believe that the government will be motivated to negotiate an early renewal of this lease, and we intend to initiate renewal discussions during this coming fiscal year.

Year ending January 31	2002(1)	2003	2004	2005	2006
Sq. ft. expiring	11,557	40,134	13,496	735,998(2)	49,297
Rent on expiring space	\$ 111,765	\$ 479,861	\$ 174,761	\$10,597,075	\$ 600,647
Rent per sq. ft. on expiring space	\$ 9.67	\$ 11.96	\$ 12.95	\$ 14.40	\$ 12.18
% of GLA	0.6%	2.1%	0.7%	38.1%	2.6%

(1) From April 1, 2001, to January 31, 2002.
(2) Includes 632,891 square feet in Jean Edmonds Towers.

Toronto

Toronto is the financial and industrial hub of Canada. The city features the headquarters and corporate offices of many of Canada's largest companies, including most of Canada's major banks. The real estate market in Toronto is strong. No new supply is expected in Toronto's core until at least 2002.

The Toronto downtown real estate market posted a vacancy rate of 5.4% at the end of 2000 for all classes of office product. This figure is down considerably from the rate of 8.0% at the end of the previous year. If the major towers in the financial core are viewed as a separate class, the vacancy rate drops to 1.0%. Continued demand for quality office space and the lack of any new development product coming on stream prior to 2002 have contributed to a very low vacancy rate in the financial core. In the financial core, net rental rates for Class A space range from \$22.00 to \$36.00 per square foot while Class B space ranges from \$14.00 to \$23.00 per square foot.

Toronto's midtown real estate market has benefited from the activity in the downtown core. The Class A and B office vacancy rate in the Toronto midtown district dropped to 5.7% at the end of 2000 from 8.8% at the beginning of the year, benefiting the properties in this sector. In the midtown market, net rental rates for Class B space range from \$12.00 to \$17.00 per square foot.

First Canadian Place

A landmark complex at the corner of King and Bay Streets, First Canadian Place is composed of a 72-storey Class AAA office tower and a multi-level banking and retail podium at the base of, and surrounding, the tower. First Canadian Place contains approximately 2.7 million square feet of gross leasable area. First Canadian Place benefits from its prime location, large column-free floor plates, excellent views, well-established tenants, competitive operating costs and taxes and amenities. Long-term leases with a Canadian chartered bank and several large financial, legal and consulting firms provide financial stability for First Canadian Place. Rent from a Canadian chartered bank and its affiliates is approximately 35% of the total revenues from the building.

Our interest in First Canadian Place consists of a 50% freehold interest in the land, a 50% leasehold interest in the land and a 100% ownership interest in the building. In 2023, our interest in First Canadian Place will convert to a 50% co-ownership interest in the land and building. Our interest in First Canadian Place is governed by a land lease with other land owners. Under the land lease, we coordinate our efforts with the other land owners through a committee that oversees the performance of the property. During the term of the land lease, the other land owners are entitled to certain payments to the extent cash is available. Due to the nature of the land lease entitlements, we are currently receiving approximately 70% of the cash flow from First Canadian Place plus 50% of incremental cash flow growth.

Lease rollovers in First Canadian Place are relatively modest for the next three years, after which time approximately 780,000 square feet of space is scheduled for renewal or re-leasing over a two-year period. As of April 1, 2001, the occupancy rates for the office and retail components of First Canadian Place were 98.7% and 96.7%, respectively, with a current average rent in place of $22.18 per square foot. During fiscal 2001, approximately 155,000 square feet of leasing activity was completed at an average net rental rate of $28.28 per square foot. This compares with an average for those lease expiries of $18.79 per square foot. The market rate for office space at First Canadian Place is presently $34.00 per square foot. Since our fiscal year-end, approximately 43,000 square feet of leasing activity on office space has been completed, at an average net rental rate of $29.25 per square foot. Lease expiries included in this leasing activity total 8,000 square feet that had an average rate at expiry of $7.20 per square foot.

Year ending January 31	2002(1)	2003	2004	2005	2006
Sq. ft. expiring	85,816	166,309	174,814	372,283	412,782
Rent on expiring space	$ 1,321,504	$ 5,110,361	$ 3,389,246	$ 8,637,216	$13,870,309
Rent per sq. ft. on expiring space	$ 15.40	$ 30.73	$ 19.39	$ 23.20	$ 33.60
% of GLA	3.2%	6.2%	6.5%	13.9%	15.4%

(1) From April 1, 2001, to January 31, 2002.

Other Toronto office properties

The portfolio of nearly 600,000 square feet has occupancy rates of 97% in the financial district and 99% in the midtown market as of April 1, 2001. Our 18 King Street East property is located in the Toronto financial district. 2/24 St. Clair Avenue West and 40 St. Clair Avenue West are located in the midtown market.

18 King Street East is a 17-storey office building containing 233,000 square feet of gross leasable area. It is located at the corner of King and Victoria Streets, one block east of Yonge Street, the subway and the downtown financial district. As of April 1, 2001, the building was 97% leased, generating average net rent of $14.56 per square foot leased, which compares with a market rate of $18.00 per square foot for the building.

2 St. Clair Avenue West is a 21-storey, 228,000 square foot office building. 24 St. Clair Avenue West is a two-storey building comprising 10,000 square feet of leaseable area, which is connected to, and integrated with, the main office tower. Street level retail is located at the base of the property with shops fronting onto Yonge Street and St. Clair Avenue. The property is located on the northwest corner of Yonge Street and St. Clair Avenue, steps away from the subway station in midtown Toronto. 2/24 St. Clair Avenue West has undergone a redesign and refinishing of the street level podium area and a major lobby renovation. The redesign initiatives and a revitalized retail component have repositioned this building to attract higher rents and quality tenants in a market seeking alternatives along the Yonge subway line. As of April 1, 2001, this property was 100% leased, generating average net rent of $16.29 per square foot leased, which compares with a market rate of $17.00 per square foot for the building.

40 St. Clair Avenue West is a 13-storey office building comprising 127,000 square feet of gross leasable area. It is located in close proximity to the corner of Yonge Street and St. Clair Avenue and the St. Clair East subway station in midtown Toronto. As of April 1, 2001, the property was 98% leased, generating average net rent of $14.00 per square foot leased, which compares with a market rate of $16.00 per square foot for the building.

During fiscal 2001, 118,000 square feet of leasing activity was completed in the Toronto portfolio at an average net rental rate of $15.32 per square foot.

Year ending January 31	2002(1)	2003	2004	2005	2006
Sq. ft. expiring	112,635	122,253	70,630	16,851	142,623
Rent on expiring space	$1,876,376	$2,003,707	$1,330,205	$ 142,853	$2,282,980
Rent per sq. ft. on expiring space	$ 16.66	$ 16.39	$ 18.83	$ 8.48	$ 16.01
% of GLA	18.8%	20.4%	11.8%	2.8%	23.9%

(1) From April 1, 2001, to January 31, 2002.

Niagara Falls

Built in 1995, Acres House is a Class A building in downtown Niagara Falls. As of April 1, 2001, Acres House was 97% leased, generating average net rent of $5.44 per square foot leased, compared to a market rate of $7.25 per square foot for the building. Acres International, a tenant, has served notice that it intends to give back 19,787 square feet, representing 13% of the building's gross leasable area, on April 1, 2002, by making a termination payment of $171,000.

Year ending January 31	2002(1)	2003	2004	2005	2006
Sq. ft. expiring	1,052	62,394	0	4,232	0
Rent on expiring space	$ 10,520	$ 394,580	$ 0	$ 45,813	$ 0
Rent per sq. ft. on expiring space	$ 10.00	$ 6.32	$ 0	$ 10.83	$ 0
% of GLA	0.7%	41.7%	0%	2.8%	0%

(1) From April 1, 2001, to January 31, 2002.

Winnipeg

Although Winnipeg has diversified its economy beyond its historic base of agriculturally-related industries, the performance of this sector will continue to have a moderating effect on future growth projections. The Winnipeg downtown Class A and B space posted vacancy rates at the end of 2000 of 8.5% and 6.1%, respectively, which compares with 5.9% for Class A and 7.3% for Class B space at the beginning of 2000.

In the downtown area, net rental rates for Class A space range from $12.00 to $16.00 per square foot while rates for Class B space range from $9.00 to $13.00 per square foot.

Our properties consist of two buildings. 330 St. Mary Avenue is a 12-storey office building located at the southeast corner of St. Mary Avenue and Hargrave Street in downtown Winnipeg. The property is across the road from Eaton Place Mall and one block east of the city's convention centre. The building has 150,000 square feet of leaseable area. As of April 1, 2001, the property was 71% leased, generating average net rent of $10.10 per square foot leased, which compares to a market rate of $12.25 per square foot for the building.

175 Hargrave Street is a 71,000 square foot, seven-storey office building immediately south of 330 St. Mary Avenue. It offers a cost-effective alternative to properties at Portage and Main Streets. As of April 1, 2001, 175 Hargrave Street was 83% leased, generating average net rent of $9.65 per square foot leased, which compares with a market rate of $10.50 per square foot for the building.

During the latter half of fiscal 2001, the vacancy rate in the Winnipeg portfolio increased to 25% from 10%, primarily as a result of the loss of a 29,000 square foot tenant. During fiscal 2001, 36,000 square feet of leasing activity was completed in the Winnipeg portfolio at an average net rental rate of $12.15 per square foot.

Year ending January 31	2002(1)	2003	2004	2005	2006
Sq. ft. expiring	4,583	47,427	23,866	13,658	61,332
Rent on expiring space	$ 53,383	$ 480,381	$ 206,315	$ 165,294	$ 669,500
Rent per sq. ft. on expiring space	$ 11.65	$ 10.13	$ 8.64	$ 12.10	$ 10.92
% of GLA	2.1%	21.5%	10.8%	6.2%	27.8%

(1) From April 1, 2001, to January 31, 2002.

Calgary

The Calgary real estate market has performed well. The Calgary downtown office sector posted an overall vacancy rate of 7.1% at the end of 2000, up only modestly from the rate of 5.8% at the end of the previous year, notwithstanding the large addition of 1.2 million square feet to the inventory during the year. Current net rental rates in the downtown core range from $17.00 to $25.00 per square foot for Class A space and $12.00 to $18.00 per square foot for Class B space.

Altius Centre is a 31-storey office building located in the Eau Claire District of Calgary's downtown office market. The building offers 305,000 square feet of leasable area. It is connected to the city's elevated skywalk system, referred to as the Plus 15 System, which links Altius with the city's downtown core and amenities. It was 95% leased as of April 1, 2001, generating average net rent of $15.81 per square foot leased, which compares with a market rate of $17.50 per square foot for the building.

840–7th Avenue is a 20-storey, 262,500 square foot office building located in the west end of Calgary's downtown core. It is part of a mixed-use complex, which includes a hotel, retail shops and

underground parking. The complex is located on the Light Rail Transit system and will be connected to the Plus 15 System this year. A recently completed redevelopment at 840–7th Avenue elevated the profile of the building in its market and has resulted in a significant improvement in the quality and mix of the underlying tenant base. The property has increased from 71% occupied at the end of fiscal 2000 to 83% based on current leases in place as of April 1, 2001, generating average net rent of $10.62 per square foot leased, which compares with a market rate of $12.50 per square foot for the building.

McFarlane Tower is an 18-storey office building located on 4th Avenue in Calgary's downtown west core. The building has a leasable area of approximately 243,000 square feet. The property was 96% leased as of April 1, 2001, generating average net rent of $10.80 per square foot leased, compared to a market rate of $13.25 per square foot for the building.

Franklin Atrium is a two-storey suburban office building located in the northeast quadrant of Calgary in an office/industrial park referred to as the Franklin Industrial Park. The location provides easy access to the downtown core, airport and Light Rail Transit system. Two large atriums containing tropical plants, fish ponds, streams and exotic birds distinguish the property and provide a unique work environment. The atriums divide the building, allowing for large or small office layouts. In aggregate, the property contains 144,000 square feet of leaseable area. It was 76% leased as of April 1, 2001, generating average net rent of $8.35 per square foot leased, which compares with a market rate of $11.00 per square foot for the building.

Franklin Building is a two-storey, suburban office building also located in the Franklin Industrial Park. It is in close proximity to all amenities, including the airport and the Light Rail Transit system. The building has 51,000 square feet of leaseable area. The Calgary Regional Health Authority and Telus Communications Inc. occupy the entire building. As of April 1, 2001, the property was 100% leased, generating average net rent of $9.69 per square foot leased, which compares with a market rate of $10.50 per square foot for the building.

Pembina is a six-storey, 72,500 square foot office building located on the western edge of Calgary's downtown core. The western terminus of the city's Light Rail Transit system is situated immediately in front of the building. The major tenant, who occupies most of the building, will be vacating its premises on July 31, 2001. We intend to redevelop Pembina Place with a view to repositioning and re-leasing this property by commencing a renovation program once this tenant vacates. Current market rates are $12.00 per square foot for the building. The vacating tenant was previously paying rent of $5.40 per square foot.

Mount Royal Place is a 56,000 square foot, six-storey office building located in Calgary's Beltline office market. It is located on a prominent corner fronting 8th Street West north of 14th Avenue South. The location forms the southern end of the Beltline office market and, as a result of its proximity to the affluent Mount Royal neighbourhood, tends to attract service-oriented companies. The property was 86% leased as of April 1, 2001, generating average net rent of $8.46 per square foot leased, which compares with a market rate of $11.25 per square foot for the building.

During fiscal 2001, 192,000 square feet of leasing activity was completed in the Calgary portfolio at an average net rental rate of $12.21 per square foot.

Year ending January 31	2002[2]	2003	2004	2005	2006
Sq. ft. expiring[1]	82,009	192,021	50,170	122,015	167,325
Rent on expiring space[1]	$ 713,399	$1,725,557	$ 625,131	$1,830,975	$2,248,238
Rent per sq. ft. on expiring space	$ 8.70	$ 8.99	$ 12.46	$ 15.01	$ 13.44
% of GLA[1]	8.4%	19.6%	5.1%	12.4%	17.1%

(1) Represents our ownership interest.
(2) From April 1, 2001, to January 31, 2002.

Property development

Given current market dynamics, and assuming successful completion of O&Y REIT, we are strategically focusing on property development to achieve future growth. This shift reflects our view that on a risk-adjusted basis, development yields are superior to the yields available from the purchase of existing office properties. We believe that the risk associated with development has decreased from the past due to a variety of factors, including: a more cautious and disciplined approach by developers due to capital markets and financing constraints; a requirement to ensure adequate levels of pre-leasing before commencement of a project; and strong market fundamentals. We take an extremely disciplined approach before proceeding with a development project to ensure the risks are contained. At January 31, 2001, our assets employed in property development, including property under development and land held for development totalled $31.0 million, of which $26.8 million relates to the Maritime Life Tower development project and $4.2 million relates to Place de Ville III.

Our development activities are currently focused on our Maritime Life Tower development project in downtown Toronto and Place de Ville III in downtown Ottawa. In Toronto, the financing, equity capital and anchor tenant have all been secured, and construction has commenced. All necessary zoning requirements are in place. This Class A tower will be the first to be built in downtown Toronto in nearly a decade. At this time, the demolition of the old buildings and excavation are complete and foundation work is proceeding.

Total project cost is estimated at $122 million, with $82.7 million to be provided by our construction financing. The construction financing is for 30 months from initial draw (projected to occur in August 2001), and carries a rate of prime plus 1.5%. The significant condition that must be met prior to first draw is 40% pre-leasing. The lease with Maritime Life represents 150,000 square feet (excluding expansion space) or 35% of the total net rentable area. We expect to meet the pre-leasing requirement prior to August 2001. As previously mentioned, it is expected that O&Y REIT will have the option to purchase the Maritime Life Tower development once completed, at our development cost, estimated to be $133 million, which includes interest on our proposed $40 million loan from O&Y REIT.

Our other significant development asset is a one-half interest in a site located in downtown Ottawa adjacent to Place de Ville I, known as Place de Ville III. Place de Ville III can accommodate a 500,000 square foot office complex and represents an attractive development opportunity, given Ottawa's 4.7% vacancy rate and scarcity of downtown development sites. Site plan approval has been obtained and development will begin once pre-leasing and financing commitments have been secured. Given the site's proximity to the Place de Ville complex, the existing facilities and systems at Place de Ville may be utilized to further enhance this opportunity. The development cost for the project is estimated at approximately $100 million, or $200 per square foot.

In addition, we own a development site in downtown Winnipeg that will be developed once market conditions are appropriate.

We are currently pursuing several other development initiatives. Although not all of these initiatives will come to fruition, we do expect some of them to proceed.

Assuming successful completion of the initial public offering, O&Y REIT will have the option to purchase our future completed development projects, generally at the greater of 90% of fair market value and our development cost. In addition, it will have the right to provide mezzanine loans to fund our equity component of those future development projects, thereby benefiting us by providing us access to capital to pursue our development initiatives.

Real estate services

With over 100 million square feet of office, retail, industrial, facilities and residential properties under management, O&Y Enterprise, our real estate services division is Canada's largest provider of third-party commercial real estate management services, managing over $10 billion in assets for its clients. It manages properties ranging from small community shopping centres to major office towers such as First Canadian Place and Scotia Plaza in downtown Toronto. O&Y Enterprise has 10 offices in major centres across Canada and employs approximately 1,800 people.

O&Y Enterprise provides a full range of services including property and facilities management, leasing and construction management as well as other services. Its real estate professionals cover a wide range of disciplines, which enables them to service diverse and often complex property needs. O&Y Enterprise has a national infrastructure to provide consistent and consolidated services ideally suited for large portfolios.

Real estate owners demand a sophisticated level of service and O&Y Enterprise approaches this challenge with a dual strategy. First, it takes a human resources approach by emphasizing employee education and awareness programs that build a service-oriented culture. Second, it takes a technological approach to create tools that respond to the changing needs of real estate clients and to enable more efficient and consistent service delivery. For example, two proprietary Web-based systems, Building Connect™ and Client Connect™, improve communication and information sharing for real estate owners and tenants. Building Connect™ enables tenants to interact online with their building's operating systems and personnel – providing immediate responses to service requests, up-to-the-minute service tracking and time savings. Client Connect™ is a Web-based client-reporting tool that enables our real estate services team to report to clients in a real-time environment. This financial and property reporting interface enables clients to access their monthly reports easily and from any location. Both of these systems will help improve the quality of service delivery, decrease costs and grow margins.

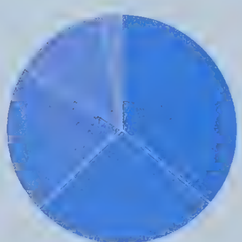
The following tables provide a breakdown of properties operated by region and type:

Properties under management by region[1]

- 54% Ontario
- 23% Prairies
- 10% Quebec
- 8% Maritimes and Other
- 5% British Columbia

(1) As a percentage of total square feet managed.

Properties under management by property type[1]



- 36% Office
- 27% Retail
- 21% Facilities
- 13% Industrial
- 3% Residential

(1) As a percentage of total square feet managed.

Revenue from real estate services is generated from contractual fees related to property management, as well as fees earned from transactional business that includes leasing, construction management, due diligence coordination, asset management, strategic consulting, development and other related fees. In fiscal 2001, 48% of revenue related to property management assignments that are contractual in nature and produce a predictable, recurring revenue stream.

In fiscal 2001, we increased our managed property portfolio by approximately 7 million square feet, including being awarded our first national facilities management contract, comprising approximately 5 million square feet. In April 2001, we announced the formation of a new partnership with CB Richard Ellis Limited (the world's largest brokerage and real estate services company) to develop facilities management and corporate real estate services opportunities in Canada, named O&Y CB Richard Ellis Facilities Management ("O&Y CB"). We also announced being awarded our second national facilities management contract through O&Y CB. The partnership was awarded a five-year contract to provide outsourced corporate real estate services for the Canadian Imperial Bank of Commerce's ("CIBC") Canadian facilities. O&Y CB is responsible for all corporate real estate services for CIBC including facilities, project and transaction management for all its branches and office space across Canada, totalling 11.5 million square feet.

During the year, one of our major clients, RioCan REIT, announced that effective July 1, 2001, it will internalize its property management function, which will result in a loss of 18 million square feet under management, and an estimated annualized loss of operating income of approximately $1.5 to $2 million.

Results of operations fiscal 2001 vs fiscal 2000 – highlights

Rental properties

Net rental income (before financing expense, depreciation and amortization, corporate and income tax expense) increased 28% to $89.1 million, primarily as a result of acquisitions during the prior year.

Property interests acquired in the prior year accounted for $17.1 million of the increase, representing the 70.3% interest in First Canadian Place acquired on September 8, 1999, and the 2.5% interest in Purdy's Wharf acquired on January 1, 2000.

Comparable property income grew by $4.2 million in the Ottawa, Toronto, Niagara Falls, Halifax and Calgary portfolios during the year. Contributing to the increase was rental income at First Canadian Place of $1.6 million as a result of additional leasing and step-ups in lease rates. The completion of the building renovation program which repositioned 2/24 St Clair Avenue West as "best in class" in the Yonge/St. Clair Toronto office node, also resulted in an approximate $800,000 year-over-year increase in rental income. Comparable property rental income in Winnipeg declined $269,000 due to the vacancy of a major tenant, who had occupied 29,000 square feet at 330 St. Mary Avenue. Properties disposed of during the two fiscal periods included 5140 Yonge Street, sold August 1999, and the suburban Ottawa/Kanata portfolio, sold June 2000, which together amounted to $2.7 million of rental income.

Year ended January 31 *(in thousands of dollars)*	2001	2000	Change Favourable (Unfavourable)
Rental property revenues	$ 217,913	$ 168,732	$ 49,181
Rental property operating expenses and taxes	108,588	87,554	(21,034)
Land leases, ground rent and entitlements	20,187	11,327	(8,860)
Net rental income	$ 89,138	$ 69,851	$ 19,287
Increase in net rental income comprises:			
Property interest acquired:			
First Canadian Place			$ 16,883
Purdy's Wharf			259
			17,142
Comparable properties:			
Increases:			
Halifax			272
Ottawa			471
Toronto			840
Niagara Falls			99
First Canadian Place			1,587
Calgary			962
			4,231
Decreases:			
Winnipeg			(269)
Property interest disposed:			
5140 Yonge Street			(1,314)
Suburban Ottawa/Kanata portfolio			(1,361)
			(2,675)
Fiscal 2001 non-recurring and other			858
			$ 19,287

Real estate services

Revenues from real estate services on a consolidated basis (excluding management of OYPC rental properties) increased by 19% or $11.1 million to $70.3 million in fiscal 2001. Approximately 39% or $4.3 million of the increase is attributed to an increase in property management fees from new business acquired during the year. Approximately 38% or $4.2 million is attributed to an increase in project management/contracting fees obtained in Ottawa. The remainder of the increase is due to other transactional business obtained during the year.

Real estate services income (income before financing expense, depreciation and amortization, corporate and income tax expense) increased by 11% to $7.2 million, reflecting the increased business discussed above.

Financing expense

Financing expense increased $14.8 million to $44.8 million in fiscal 2001 mainly as a result of the purchase of the remaining interest in First Canadian Place in late 1999. The purchase was partly financed through an 8.06% first mortgage bond issue on December 7, 1999. Fiscal 2001 has seen the full year impact of this financing. The increase is also due to the refinancing of Place de Ville II and Jean Edmonds Towers, in April 2000.

Corporate expense

Corporate expense increased by 13% to $5.4 million in fiscal 2001 from $4.8 million in fiscal 2000, mainly as a result of certain business development initiatives undertaken during the year in connection with potential development opportunities.

Depreciation and amortization

Depreciation and amortization reflects depreciation of rental properties and amortization of leasing costs and other assets and was $31.2 million in fiscal 2001 compared to $30.6 million in fiscal 2000.

Gain on disposition of assets, net

A gain of $7.2 million was recorded on the disposition of assets relating mainly to the disposition of our Ottawa/Kanata portfolio for net proceeds of $19 million ($31 million, gross).

Income taxes

A future income tax recovery of $28.8 million was recorded in fiscal 2001 compared to a future income tax expense of $12.4 million recorded in fiscal 2000. Approximately $21.4 million related to a reduction in the recorded amount of income tax liabilities due to substantively enacted income tax rate reductions announced in the October 2000 Canadian federal budget. Another $15.6 million relates to an increase in the tax basis of land upon a corporate reorganization of one of our subsidiaries. Current income tax expense increased from $2.7 million to $3.2 million primarily as a result of higher capital taxes.

Debt profile

At January 31, 2001, 90% of the secured debt was subject to interest at fixed rates. The remaining debt was subject to interest rates that vary with the level of short-term bank lending rates. Financing expense would be impacted by $0.5 million or $0.01 per share (fully diluted) if interest rates were to change by 1%.

The average rate of interest on our fixed rate debt at the end of fiscal 2001 was 7.79% compared to 7.71% a year earlier. The average rate of interest on floating rate debt at January 31, 2001 was 7.62% compared to 8.18% at the end of the previous fiscal year.

Debt Maturities	Fixed Rate		Floating Rate		Total Debt	
Year ended January 31	Balance Maturing ($000s)	% of Debt Maturing (%)	Balance Maturing ($000s)	% of Debt Maturing (%)	Balance Maturing ($000s)	% of Debt Maturing (%)
2002	$ 3,509	1%	$ –	–%	$ 3,509	1%
2003	14,953	4	28,960(1)	7	43,913	11
2004	18,168	4	–	–	18,168	4
2005	–	–	–	–	–	–
2006	50,921	12	–	–	50,921	12
Thereafter	307,296	72	–	–	307,296	72
	$ 394,847	93%	$ 28,960	7%	$ 423,807	100%

Above chart differs from financial statements due to a loan extension subsequent to year-end (see note (1) below).

(1) This loan was extended for one year subsequent to year-end and is subject to one more one-year extension.

Our financial ratios for fiscal 2001 were as follows:

	2001	2000
Debt-to-equity ratio	1.45:1	1.51:1
Interest coverage ratio	1.97	2.33

Liquidity and capital resources

Cash flow from operations increased from $39.9 million in fiscal 2000 to $43.6 million in fiscal 2001, mainly as a result of the increases in net rental income from rental properties mentioned above, offset by higher financing expense.

During fiscal 2001, $7.7 million was incurred in tenant inducements in connection with 661,000 square feet of leasing activity. In fiscal 2000, tenant inducements of $10.2 million in respect of 675,000 square feet were incurred.

In fiscal 2001, two Ottawa properties, Place de Ville II and Jean Edmonds Towers, were refinanced for gross proceeds of $106.0 million. Net capital generated from the refinancing, after repayment of the existing financing, was $29.0 million, which was used to repay the balance of our First Canadian Place bridge loan of $8 million. The remainder was used to fund development activities and operations.

Capital expenditures on rental properties amounted to $16 million in fiscal 2001 and $19.9 million in fiscal 2000. In fiscal 2001, $6.5 million in capital expenditures was invested in 840–7th Avenue as the property underwent a major retrofit program. Approximately $3.5 million was spent in First Canadian Place for ongoing washroom and lobby renovations and general repair and replacement of equipment and systems. As well, $2.2 million was spent on technology initiatives relating to our real estate services business. The balance of the capital expenditures in fiscal 2001 related to various capital and repair and maintenance programs on the property portfolio.

In the coming fiscal year, with the exception of the renovation program at the Pembina property, capital expenditures in respect of the rental properties are expected to normalize and be generally limited to regular repair and maintenance activities. As previously mentioned, our Pembina property in Calgary is soon-to-be vacant, and we will initiate a $2 million redevelopment, repositioning and re-leasing of the property commencing in the summer of 2001.

We spent $3.9 million on the Maritime Life Tower development project during fiscal 2001. At the end of fiscal 2001, $26.8 million is recorded on our balance sheet relating to the Maritime Life Tower development project, including the related land purchases.

At the end of the fiscal year, cash and cash equivalents was $38.9 million in fiscal 2001, compared to $29.1 million in fiscal 2000. Included in cash and cash equivalents is $21.5 million ($20.1 million at January 31, 2000) held, in part, pursuant to the terms of joint venture arrangements and, in part, under the terms of a trust indenture governing an issue of bonds.

We expect that any expenditures we are required to make on existing rental properties will be financed through internally generated cash. The Maritime Life Tower development project will be financed in part through current cash reserves for our equity portion, as well as through the $82.7 million construction financing already in place.

Formation of O&Y REIT

In April 2001, we decided to create O&Y REIT and enter into the transactions contemplated with O&Y REIT in order to (i) surface value for our existing shareholders and (ii) create an entity that will have access to equity markets in order to fund future growth.

Assuming successful completion of O&Y REIT's initial public offering, the transaction being proposed will have OYPI, our operating subsidiary, transfer 16 properties to O&Y REIT for gross consideration of approximately $518 million. The acquisition of the properties will be paid for by O&Y REIT assuming approximately $233 million in existing mortgage debt and net payables, issuing $165 million in units to OYPI, issuing $80 million of convertible debentures to OYPI and by a cash payment of $40 million. In addition, O&Y REIT will advance two loans: (i) a $55 million participating loan (the "FCP Participating Loan") to O&Y FPT Inc., a wholly owned subsidiary of OYPI, which owns the interest in First Canadian Place; and (ii) a $40 million mezzanine loan to OYPI in connection with the Maritime Life Tower development.

The proposed asset purchase price of $518 million is within the range of the appraised value of $502 million to $522 million for the properties. Our book value for the properties as of January 31, 2001, was approximately $484 million.

The total cash paid and loaned to us and our subsidiaries will be $135 million. O&Y REIT will raise the cash to satisfy these obligations through the proposed $150 million initial public offering of trust units. We will utilize the proceeds of $135 million as follows: (i) approximately $48 million to repay mortgages that will not be assumed by O&Y REIT; (ii) up to $34 million to pay costs associated with the transaction, including income taxes that will arise from the transaction; and (iii) the balance of $53 million will be retained to fund future development opportunities.

Immediately after the transaction, our interest in O&Y REIT is expected to be comprised of (i) $165 million in trust units, representing approximately 52% of all of the outstanding units and (ii) $80 million of convertible debentures. The convertible debentures will have a five-year term and a 7.5% coupon and will be convertible into O&Y REIT units at $12.00 per unit. On a fully diluted basis, our ownership interest in O&Y REIT is expected to be approximately 62%.

As part of the closing of the transactions, O&Y REIT and OYPI will enter into a development agreement pursuant to which O&Y REIT will have the option to purchase development projects undertaken by OYPI following completion. O&Y REIT will also have the right to offer to make mezzanine loans to OYPI to fund the projected equity component of a development project.

OYPI will also provide the services of certain management individuals pursuant to a services agreement, for which O&Y REIT will reimburse OYPI for the cost of these individuals, based on the compensation cost to OYPI of employing them, and the time spent by them on managing the affairs of O&Y REIT. Until December 31, 2002, the cost to O&Y REIT will be capped at $1.5 million on an annualized basis. The services agreement will also contemplate OYPI providing O&Y REIT with support services for a fee of $500,000 per year.

The $55 million participating loan to O&Y FPT Inc. is due December 1, 2009, and will bear interest payable monthly equal to, on an annual basis, the sum of (i) 11% and (ii) 25% of O&Y FPT's interest in annual cash flow before debt service from First Canadian Place exceeding $40 million, subject to a maximum yield of 12.5% per annum. In consideration of being granted the FCP Participating Loan, O&Y FPT will covenant not to place further financial encumbrances on First Canadian Place. In addition, all of the outstanding shares of O&Y FPT will be pledged as security for the FCP Participating Loan. At maturity, the principal amount outstanding will be repaid to O&Y REIT. In addition, at maturity, O&Y REIT will be entitled to receive 10% of the amount by which the then appraised fair market value of O&Y REIT's interest in First Canadian Place exceeds $514 million.

The $40 million Maritime Life Tower mezzanine loan from O&Y REIT will be due 24 months from substantial completion of the development and will be subordinate to the construction financing already in place. It will bear interest at 11%. O&Y REIT will have an option to acquire the property once substantially completed at OYPI's development cost, which is estimated to be $133 million.

On closing of the transaction, OYPI will agree to provide O&Y REIT with an income subsidy to offset the contractual $6.97 per square foot reduction in lease revenue for a period of five years commencing November 2003, relating to a lease extension on 577,085 square feet of the office space in the Place de Ville II property being acquired by O&Y REIT. As well, OYPI will enter into a five-year lease for up to 64,851 square feet in the 18 King Street East property which is also being acquired by O&Y REIT, in order to eliminate the risk of re-tenanting this space which will become vacant by July 2001. OYPI intends to sublet this space as soon as possible. As security for the obligations described above, on closing OYPI will pledge units and/or O&Y REIT convertible debentures having an aggregate value of $20 million.

O&Y Enterprise will administer the day-to-day operations of O&Y REIT's portfolio of office properties pursuant to a property management agreement, for a fee equal to 3% of O&Y REIT's gross revenues from properties managed, except that the fee in respect of the properties co-owned by O&Y REIT will be the fee agreed upon by the co-owners.

O&Y Enterprise will also be appointed the leasing manager of O&Y REIT's office properties pursuant to a leasing management agreement, and will be paid a fee based on its level of involvement in a lease transaction.

As we will own a majority interest in O&Y REIT, we will account for our investment in the REIT on a consolidated basis in our financial statements. As a result, our balance sheet after the creation of O&Y REIT will not change significantly. As it relates to cash flow from operations, we would expect to see a modest decline due to the lost earnings on up to $34 million in cash required to pay income taxes associated with the transaction. In addition, until the $53 million of cash is redeployed into development initiatives, we will suffer a spread loss while the funds are held in money market instruments. In the longer term, through participating in the growth of O&Y REIT (assuming successful completion of the transactions), O&Y Enterprise, First Canadian Place and development activities, we have set the course to grow both cash flow and shareholder value. The liberation of capital through this transaction and the continuing relationship with O&Y REIT will enhance our future growth opportunities.

Risks and uncertainties

There is business risk associated with the ownership and development of income-producing properties and the provision of real estate services.

Ownership of real estate is a capital-intensive business. Success depends on maintaining occupancy levels and rental income flows that are sufficient to generate an acceptable return. Occupancy rates and rental income flows are in turn dependent on the economy and local market conditions. Furthermore, the availability of debt and the cost of servicing it will influence the degree of return on equity.

Our objective is to strike a balance between risk and reward and short-term versus long-term growth and value creation. As a means to mitigate risk of geographic concentration, we have diversified our base to include properties in different regional centres in Canada. Within the portfolio, tenant mix is directed towards a variety of private and public sector tenants with strong covenants. Our exposure to the technology sector is limited, with only 8% of our portfolio tenanted by technology companies. This should mitigate our risk to the recent downturn being experienced by companies within that industry.

As a means to mitigate financial risk, we carefully manage our debt to stagger maturities. As well, we minimize our exposure to floating rate debt.

Development of real estate has additional inherent risks, such as real estate market cycles, cost overruns, labour disputes, construction delays and unpredictable general economic conditions. Hurdles to property development include locating and buying attractive development sites, paying the carrying costs of land and development, securing construction financing, obtaining development approvals, marketing and leasing a building in advance of, and during, construction and earning no return during the construction period.

The real estate services business is competitive and continued success depends on our ability to retain contracts and to provide a steadily increasing array of new services at a fair price. The potential for termination of contracts exists, due to the investment time horizon of certain clients, wherein a disposition of a property on their part may result in a loss of the management contract.

Finally, there is no assurance that the initial public offering of O&Y REIT's trust units will be successful and therefore the transactions previously discussed may not occur. In the event that this should occur, we will revisit our shareholder and value-creating initiatives.

Outlook

We expect that O&Y REIT will be successful. And therefore, O&Y REIT, First Canadian Place, future development activities and the real estate services business, will represent the four pillars on which we will move forward. We believe that our shareholders will benefit from growth in the property development and management services business as well as long-term value growth in O&Y REIT and First Canadian Place.

Cautionary statement regarding forward-looking statements

This Management's Discussion and Analysis contains forward-looking statements relating to our operations and the environment in which we operate, which are based on our expectations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. We undertake no obligation to publicly update any such statement, to reflect new information or the occurrence of future events or circumstances.

independent chartered accountants' report to shareholders

To the Shareholders of O&Y Properties Corporation:

We have audited the consolidated balance sheets of O&Y Properties Corporation as at January 31, 2001 and 2000, and the consolidated statements of earnings and retained earnings, cash flow from operations and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2001 and 2000, and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Canada
March 22, 2001 *(except as to note 18 which is as of April 23, 2001)*

consolidated balance sheets

January 31 *(in thousands of dollars)*	Notes	2001	2000
Assets			
Rental properties	2,3	$ 1,030,385	$ 1,000,812
Property under development	4(a)	26,807	–
Land held for development	4(b)	4,199	26,120
Real estate services contracts	5	32,469	32,081
Amounts receivable		15,456	12,259
Deferred costs and other assets		9,198	9,310
Cash and cash equivalents	6	38,851	29,138
		$ 1,157,365	$ 1,109,720
Liabilities			
Secured debt	7	$ 578,670	$ 592,366
Accounts payable and accrued liabilities		55,089	53,728
Future income taxes	8	86,232	15,627
Debentures, notes and preferred shares, liability component	9	22,464	34,016
		742,455	695,737
Shareholders' equity			
Debentures, notes and preferred shares, equity component	9	109,037	102,002
Common shares	10	242,501	245,234
Retained earnings		63,372	66,747
		414,910	413,983
Commitments and contingencies	15		
		$ 1,157,365	$ 1,109,720

See accompanying notes to financial statements.

On behalf of the Board:

Tibor Donath

Tibor Donath, Director

Maureen Sabia

Maureen Sabia, Director

consolidated statements of earnings and retained earnings

Year ended January 31 *(in thousands of dollars except per share amounts)*	Notes	2001	2000
Revenues			
Rental property		$ 217,913	$ 168,732
Real estate services		70,331	59,240
		288,244	227,972
Expenses			
Rental property operating expenses and taxes		108,588	87,554
Land leases, ground rent and entitlements	11	20,187	11,327
Real estate services		63,141	52,711
		191,916	151,592
Rental and real estate services income		96,328	76,380
Financing expense		44,841	29,961
Corporate expense		5,409	4,843
Depreciation and amortization		31,166	30,561
Income before the undernoted items		14,912	11,015
Gain on disposition of assets, net	12	7,186	14,479
Current income tax expense	8	3,199	2,721
Future income tax expense (recovery)	8	(28,769)	12,405
Net income for the year		47,668	10,368
Retained earnings, beginning of year		66,747	60,741
Accretion on equity component of debentures, notes and preferred shares (net of tax of $2,285; 2000 – $2,134)	9	(4,748)	(4,362)
Impact of adoption of CICA change in generally accepted accounting principles for income taxes	1(j)	(46,295)	–
Retained earnings, end of year		$ 63,372	$ 66,747
Earnings per common share			
Basic		$ 1.00	$ 0.14
Fully diluted		$ 0.88	$ 0.14

See accompanying notes to financial statements.

consolidated statements of cash flow from operations

Year ended January 31 *(in thousands of dollars except per share amounts)*	Notes	2001	2000
Net income		$ 47,668	$ 10,368
Non-cash items:			
Depreciation and amortization		31,166	30,561
Future income tax (recovery) expense		(28,769)	12,405
Other		–	508
Gain on dispositions of assets, net of current income tax	12	(6,492)	(13,917)
Cash flow from operations		$ 43,573	$ 39,925
Cash flow from operations per common share			
Basic		$ 0.89	$ 0.80
Fully diluted		$ 0.82	$ 0.76

See accompanying notes to financial statements.

consolidated statements of cash flow

Year ended January 31 *(in thousands of dollars)*	Notes	2001	2000
Operating activities			
Cash flow from operations		$ 43,573	$ 39,925
Net change in operating working capital		(3,204)	9,885
Tenant inducements on rental properties		(7,712)	(10,187)
Cash provided by operating activities		32,657	39,623
Financing activities			
Debt issued to finance acquisitions		–	350,899
Permanent financing and other debt issued		119,067	388,340
Regular principal repayments		(15,873)	(16,831)
Other debt repaid		(105,440)	(437,399)
Debt repaid from proceeds of asset dispositions		(11,450)	–
Debt issue and retirement costs		(3,962)	(13,578)
Debentures, notes and preferred share repayments		(7,346)	(7,346)
Redemption of Series 1 redeemable preferred shares of a subsidiary		(6,000)	–
Repurchase of common shares for cancellation		(4,733)	(1,301)
Cash provided by (used in) financing activities		(35,737)	262,784
Investment activities			
Purchase of rental properties, including working capital		–	(339,988)
Expenditures on rental properties and real estate services assets		(15,957)	(19,867)
Expenditures on property under development		(3,932)	–
Expenditures on land held for development		(1,284)	(965)
Acquisition of land held for development		–	(1,456)
Acquisition of real estate services business, including working capital		–	(2,121)
Proceeds from sale of rental properties		31,150	39,975
Proceeds from sale of land held for development		375	–
Proceeds from sale of investment		1,300	419
Other		1,141	2,382
Cash provided by (used in) investment activities		12,793	(321,621)
Increase (decrease) in cash and cash equivalents during the year		9,713	(19,214)
Cash and cash equivalents – beginning of year		29,138	48,352
Cash and cash equivalents – end of year		$ 38,851	$ 29,138
Supplementary cash flow information			
Cash paid for interest		*$ 52,566*	*$ 34,363*
Cash paid for income taxes		*$ 2,878*	*$ 3,072*

See accompanying notes to financial statements.

notes to consolidated financial statements

(all tabular amounts stated in thousands of dollars unless otherwise noted)

1. Significant accounting policies

(a) General

O&Y Properties Corporation is incorporated under the *Business Corporations Act (Ontario)*. The Company's accounting policies and standards of financial disclosure are in accordance with Canadian generally accepted accounting principles and are also in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies, of which the Company is a member.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from these estimates.

(b) Consolidation

The consolidated financial statements include the accounts of O&Y Properties Corporation, its principal subsidiaries O&Y Properties Inc. and O&Y FPT Inc., all other subsidiaries and the proportionate share of assets, liabilities, revenues and expenses of its joint ventures.

(c) Rental properties

Rental properties include land, buildings, improvements, furniture and equipment and costs related to leasing the rental properties.

Rental properties are carried at the lower of cost less accumulated depreciation and estimated net recoverable amount. The net recoverable amount for each of the Company's rental properties represents the undiscounted estimated future cash flow expected to be received from the ongoing use of the property plus its residual worth.

Depreciation on buildings and improvements is provided using the sinking fund method in annual amounts increasing at the rate of 5% compounded annually, which is designed to fully amortize the cost of the buildings and improvements over their estimated useful lives, which range from 30 to 60 years.

Amortization of leasing costs is provided using the straight-line method over the terms of tenant lease agreements.

(d) Property under development

Property under development consists of an office building under construction, which is recorded at the lower of cost, including pre-development expenditures, and estimated net recoverable amount.

(e) Land held for development

Land held for development is recorded at the lower of cost plus applicable carrying costs and estimated net recoverable amount.

(f) Revenue recognition

Revenue from a rental property is recognized once a property is deemed to be completed. Completion is deemed to occur once a break-even point in operating cash flow is attained, subject to a reasonable maximum period of time or level of occupancy. Prior to achieving this level of cash flow, properties are classified as properties under development and revenue therefrom is treated as a deduction from the development cost.

Revenue from a real estate sale is recognized once all material conditions have been satisfied and collection of the sales proceeds is reasonably assured.

Revenue from managing and leasing commercial real estate is recorded on an accrual basis when earned. Design and construction revenue is recognized on a percentage of completion basis.

(g) Real estate services contracts

Real estate services contracts are recorded at the lower of cost net of accumulated amortization and estimated net recoverable amount. Real estate services contracts are amortized on a straight-line basis over the estimated lives of the contracts, which approximate eight years.

(h) Deferred costs

Deferred costs are amortized over terms appropriate to the expenditure.

(i) Capitalization of costs

The cost of land held for development and property under development includes interest on both specific and general debt, property taxes and general and administrative expenses incurred directly in connection with the acquisition, development and redevelopment of properties. Revenues relating specifically to such properties are treated as a reduction of costs.

(j) Income taxes

Effective February 1, 2000, the Company adopted the new requirements of the Canadian Institute of Chartered Accountants ("CICA") with respect to accounting for income taxes under the liability method. Under this method, future income tax assets and liabilities are calculated based on (i) the temporary differences between the carrying values and the tax basis of assets and liabilities, and (ii) unused income tax losses, and are measured using substantively enacted income tax rates and laws that are expected to apply in the future as the temporary differences reverse and the income tax losses are used. The application of these new standards resulted in an increase in rental properties of $50.6 million, an increase in real estate services contracts of $3.4 million, an increase in future income tax liabilities of $100.3 million and a decrease in retained earnings of $46.3 million at the date of restatement to reflect the cumulative impact of adopting the new requirements. The Company has applied these new standards retroactively and has applied these standards to business combinations subsequent to January 31, 1999. The prior year comparative amounts presented in these financial statements have not been restated.

(k) Cash and cash equivalents

Cash and cash equivalents, which consist primarily of highly liquid bank term deposits and commercial paper, are restricted to investments which have an original maturity of two months or less.

(l) Stock-based compensation plans

The Company has two stock-based compensation plans, which are described in note 10. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. Compensation expense is recognized for the Company's contributions to the Deferred Share Unit Plan.

2. Acquisitions

Year ended January 31, 2000

(a) Effective January 1, 2000, the Company acquired an additional 2.5% interest, to hold 50.0%, in Purdy's Wharf, a 695,000 square foot Class A office and retail complex located on the waterfront in the Halifax, Nova Scotia, central business district. The Company paid $2.25 million for the interest which was entirely financed through the assumption of debt. Great West Life Assurance Company is the Company's joint venture partner in this project, with an interest of 50.0%. The acquisition has been accounted for on a proportionate consolidation basis and classified as rental properties.

(b) On September 8, 1999, the Company acquired 70.29% of the shares of First Place Tower Inc. ("FPTI") to hold 100%. FPTI, now known as O&Y FPT Inc., owns 1 First Canadian Place, a 2.7 million square foot office tower and retail complex in Toronto's financial district. O&Y FPT Inc.'s interest in 1 First Canadian Place includes a 50% freehold interest and a 50% leasehold interest in the land on which the property is built and a 100% ownership interest in the office and retail complex.

As part of the transaction, the Company also offered to purchase all of the outstanding FPTI $143 million of first mortgage bonds and $86 million of convertible subordinated debentures that it did not already own. $3.9 million principal amount of bonds and debentures was not tendered and repurchased and, as part of the transaction, became unsecured indebtedness.

The total cost, including fees and expenses associated with the transaction, was $388 million, satisfied in cash and partially financed by a $300 million senior bridge loan and a $20 million junior bridge loan. On December 7, 1999, the senior bridge loan was replaced with an 8.06% 10-year $300 million first mortgage bond issue. The acquisition was accounted for using the purchase method as follows:

Rental properties	$ 353,356
Deferred costs and other assets	10,643
Cash and cash equivalents	38,750
Other working capital, net	(13,368)
Secured debt	7,000
Long-term amount payable	(4,860)
Deferred income taxes	(3,719)
	$ 387,802

3. Rental properties

January 31	2001	2000
Land	$ 185,018	$ 177,961
Buildings, improvements and other costs	865,936	836,212
Furniture and equipment	9,092	6,507
	1,060,046	1,020,680
Less accumulated depreciation	29,661	19,868
	$ 1,030,385	$ 1,000,812

4. Property under development and land held for development

(a) Property under development

January 31	2001	2000
Land	$ 22,875	$ –
Buildings and improvements	3,932	–
	$ 26,807	$ –

The change during the year consisted of the following:

Transferred from land held for development	$ 22,875	$ –
Development costs	2,658	–
Financing	969	–
General and administrative	305	–
	$ 26,807	$ –

(b) Land held for development

January 31	2001	2000
Land	$ 4,199	$ 26,120

The change during the year consisted of the following:

Acquisition	$ –	$ 4,056
Financing	674	732
Realty taxes, net	520	(208)
Net operating and pre-development costs	90	441
Dispositions	(330)	–
Transferred to property under development	(22,875)	–
	$ (21,921)	$ 5,021

5. Real estate services contracts

January 31	2001	2000
Real estate services contracts	$ 49,299	$ 42,537
Less accumulated amortization	(16,830)	(10,456)
	$ 32,469	$ 32,081

6. Cash and cash equivalents

Included in cash is $21.5 million ($20.1 million as at January 31, 2000) held, in part, pursuant to the terms of joint venture arrangements and, in part, under the terms of a trust indenture governing an issue of bonds.

7. Secured debt

	Interest Rates at January 31, 2001			Total January 31
	Range %–%	Weighted Average %	Long-Term Debt Maturing in Years Ending January 31	2001
Fixed rate debt	6.55–10.00	7.79	2002–2011	$ 523,460
Floating rate debt	6.76–8.38	7.62	2002–2006	55,210
				$ 578,670

	Interest Rates at January 31, 2000			Total January 31
	Range %–%	Weighted Average %	Long-Term Debt Maturing in Years Ending January 31	2000
Fixed rate debt	6.50–10.69	7.71	2002–2010	$ 536,866
Floating rate debt	7.10–10.10	8.18	2001–2002	55,500
				$ 592,366

Debt balances at January 31, 2001, are due as follows:

Years ending January 31	Installment Payments	Balance Due at Maturity	Total
2002	$ 24,019	$ 32,501	$ 56,520
2003	24,532	14,953	39,485
2004	21,162	18,168	39,330
2005	18,689	–	18,689
2006	13,750	50,921	64,671
Thereafter	52,679	307,296	359,975
	$ 154,831	$ 423,839	$ 578,670

Substantially all of the Company's assets have been pledged as security under the various debt agreements.

8. Income taxes

(a) The net future income tax liabilities of the Company at January 31, 2001, consist of the following:

January 31		2001
Future income tax liabilities related to differences in tax and book basis of rental properties and other assets, net		$ 126,715
Future income tax assets related to:		
(i)	Non-capital losses	(24,829)
(ii)	Debt redemption premiums and share issuance costs	(15,654)
		$ 86,232

(b) A reconciliation between the income tax computed on pre-tax income at statutory rates and the actual provision, using the liability method for the year ended January 31, 2001, and the deferral method for the prior period, is as follows:

Year ended January 31	2001	2000
Expense based on combined Canadian federal and provincial income tax rate of 42.6% (2000 – 44.62%)	$ 9,414	$ 11,375
Increase (decrease) in income tax expense resulting from:		
Recognition of future income tax asset	(15,636)	–
Reduction in future income tax rates	(21,423)	–
Non-taxable portion of capital gains	(1,090)	(1,540)
Non-deductible depreciation and amortization	–	2,505
Large corporations tax	2,130	1,871
Other, net	1,035	915
	$ (25,570)	$ 15,126

A future income tax asset of $15,636,000 was recorded due to a corporate reorganization of a subsidiary of the Company, resulting in an increase in the tax basis of land.

9. Debentures, notes and preferred shares

January 31, 2001	Liability	Equity	Total
Convertible unsecured subordinated debentures	$ 13,349	$ 87,525	$ 100,874
Series 1 convertible preferred shares	3,554	12,029	15,583
Exchangeable notes of a subsidiary	2,742	6,565	9,307
Series A convertible debentures	1,219	2,918	4,137
Series 2 redeemable preferred shares of a subsidiary	1,600	–	1,600
	$ 22,464	$ 109,037	$ 131,501

January 31, 2000	Liability	Equity	Total
Convertible unsecured subordinated debentures	$ 18,048	$ 81,676	$ 99,724
Series 1 convertible preferred shares	3,970	11,425	15,395
Exchangeable notes of a subsidiary	3,044	6,161	9,205
Series A convertible debentures	1,354	2,740	4,094
Series 1 redeemable preferred shares of a subsidiary	6,000	–	6,000
Series 2 redeemable preferred shares of a subsidiary	1,600	–	1,600
	$ 34,016	$ 102,002	$ 136,018

The Company is authorized to issue an unlimited number of preferred shares. The preferred shares are non-voting, issuable in series, each series ranking equally, and are senior to the common shares.

On June 30, 1998, the Company issued $100 million of 5.9% convertible unsecured subordinated debentures (the "Subordinated Debentures") due June 30, 2008. The Subordinated Debentures are convertible into common shares at $11.50 per common share, are redeemable at the option of the Company in cash or shares on or after June 30, 2003, and are also redeemable at the option of the Company under certain circumstances during the prior year.

The aggregate face amount of the 4.44% Series 1 convertible preferred shares (the "Preferred Shares") is $15 million (600,000 shares). The Preferred Shares are required to be redeemed on September 25, 2007, convertible into common shares of the Company at $8.25 at the option of the holder and redeemable under certain conditions at the option of the Company after September 25, 2002, (or after September 25, 2000, if the market price of the Company's common shares exceeds $10.31) in cash or common shares.

The aggregate original principal amount of the notes of a subsidiary (which are exchangeable into 6% convertible debentures or common shares of the Company) (the "Notes") was $13 million. Of these Notes, $4 million have been converted into $4 million of Series A convertible debentures (the "Convertible Debentures") of the Company. The Notes and Convertible Debentures are redeemable and convertible on substantially the same terms as the Preferred Shares.

The Preferred Shares, Notes, Convertible Debentures and Subordinated Debentures (the "Financial Instruments") may be settled at the issuer's option in cash or its own common shares. Accordingly, the obligation to make cash payments on account of interest is reflected as a liability (at the net original present value of such payments) with the remaining amount, being the present value of the principal portion of the security, reflected as equity.

The liability component of the Financial Instruments is increased each year to reflect the time value of money and reduced by cash payments of interest. The accretion is reflected as financing expense in the consolidated statements of earnings and retained earnings. The ongoing accretion of the equity component, which will increase this component from its initial carrying amount to the stated principal amount of the Financial Instruments, is reflected as a charge to retained earnings, net of income taxes. In computing earnings per common share, these charges to retained earnings are deducted from earnings available to common shareholders.

The 1,000,000 outstanding Series 1 redeemable preferred shares of a subsidiary are non-dividend bearing and are redeemable at the option of the Company or the holder and were redeemed during the year ended January 31, 2001. The 1,600 outstanding Series 2 redeemable preferred shares of a subsidiary are non-dividend bearing and are redeemable at the option of the Company at any time and at the option of the holder on or after March 25, 2005.

10. Common shares

The Company is authorized to issue an unlimited number of common shares. The common shares entitle the holder to one vote per share.

The following common share transactions occurred during the past two years:

		Number of Shares	Dollars
Outstanding as at January 31, 1999		43,495,124	$ 244,535
(i)	June 30, 1999, issuance for acquisition of Enterprise	205,128	2,000
(ii)	February 1, 1999, to January 31, 2000, share repurchases and cancellations through a normal course issuer bid	(258,700)	(1,301)
Outstanding as at January 31, 2000		43,441,552	$ 245,234
(iii)	June 30, 2000, issuance for acquisition of Enterprise	205,128	2,000
(iv)	February 1, 2000, to January 31, 2001, share repurchases and cancellations through a normal course issuer bid	(1,043,700)	(4,733)
Outstanding as at January 31, 2001		42,602,980	$ 242,501

Under the Company's Incentive Stock Option Plan, certain employees of the Company may be granted options to purchase, for cash, common shares at an exercise price of not less than 100% of the market value of the common shares at the date of grant. The options vest proportionately over either three or four years. Vesting is conditional upon pre-determined share price thresholds being achieved for the common shares. At January 31, 2001, the Company had authorized options to purchase common shares of 4,000,000 (1999 – 4,000,000) of which 3,062,500 (2000 – 3,025,000) have yet to be granted. Option expiration dates range from fiscal 2003 to fiscal 2010.

A summary of the Company's common share options issued and cancelled is as follows:

	Number of Options	Weighted Average Exercise Price (Dollars)
Outstanding as at January 31, 1999	1,425,000	$ 9.21
Granted during the year	150,000	5.74
Cancelled during the year	(600,000)	9.45
Outstanding as at January 31, 2000	975,000	8.52
Granted during the year	50,000	5.00
Cancelled during the year	(87,500)	7.28
Outstanding as at January 31, 2001	937,500	$ 8.45

A summary of the Company's common share options outstanding as at January 31, 2001, is as follows:

Range of Exercise Prices (Dollars)	Number of Options	Weighted Average Exercise Price (Dollars)	Weighted Average Remaining Life (Years)	Number of Options Exercisable
$5.00–$7.92	475,000	$ 7.04	6.71	175,000
$8.75–$9.74	62,500	$ 9.26	7.17	15,625
$10.00	400,000	$ 10.00	1.17	300,000
	937,500			490,625

Under the Company's Deferred Share Unit Plan for employees, certain employees of the Company may be granted deferred share units ("DSUs") which vest on a date determined by the board of directors to be no later than the third anniversary of the date of grant and which will be exchanged for common shares of the Company issued from treasury or purchased in the market or paid in cash on the date of vesting, at the Company's option. At any given time, one DSU has a value equal to one common share.

Under the Company's Deferred Share Unit Plan for directors, a portion of each outside director's annual retainer is paid in DSUs, which vest on the date of their retirement and which will be exchanged for common shares of the Company issued from treasury or purchased in the market or paid in cash on the date of vesting, at the Company's option.

At January 31, 2001, 113,677 DSUs (2000 – 118,807 DSUs) having a total value of $491,450 (2000 – $506,000) are outstanding, none of which vest until retirement of a board member in the case of directors' DSUs and during the year ending January 31, 2003, in the case of employees' DSUs. Issuance of the DSUs is recorded as a corporate expense for financial statement purposes.

Per share amounts are calculated using the weighted average number of common shares outstanding during the year which is 42,766,823 (2000 – 43,503,700). On a fully diluted basis the weighted average number of common shares outstanding during the year is 55,932,093 (2000 – 56,557,239).

11. Land leases, ground rent and entitlements

The land lease for 1 First Canadian Place ("1 FCP") provides that the other land owners have an entitlement to certain payments to the extent 1 FCP cash is available. Payments from 1 FCP's gross receipts under the land lease consist of eight levels, whereby the cash entitlements under each prior level must be met before payments are made with respect to the next level in any given year. Included in these financial statements are payments to the other land owners amounting to $18,201,000 for the year ended January 31, 2001 (2000 – $9,352,000).

The land lease for 1 FCP runs until 2023 or longer under certain circumstances. 1 FCP is managed by the Company. Under the land lease, the Company coordinates its efforts with the other land owners through a committee that oversees the performance of 1 FCP. Half of the members of the committee are representatives of the Company and the balance are representatives of the other land owners. At the end of the lease the other land owners have the option to acquire a 50% interest in 1 FCP for a nominal amount.

Payments under two other land leases, which run until 2065 and 2067, totalled $1,986,000 in the year ended January 31, 2001 (2000 – $1,975,000).

12. Gain on disposition of assets

During the year ended January 31, 2001, the Company sold marketable securities held for investment purposes, for total proceeds and a gain on disposition, before income taxes, of $1.3 million.

On June 1, 2000, the Company sold six suburban Ottawa properties for cash proceeds of $31.2 million, resulting in a gain on disposition, before income taxes, of $7.6 million.

These gains were partially offset by costs of $1.7 million incurred in connection with the early refinancing of debt on more favourable terms.

During the year ended January 31, 2000, the Company sold marketable securities held for investment purposes, for total proceeds and a gain on disposition, before income taxes, of $0.4 million. On August 30, 1999, the Company sold its 51.25% interest in 5140 Yonge Street, Toronto, for cash proceeds of $40.0 million, resulting in a gain on disposition, before income taxes, of $14.1 million.

13. Segmented information

The Company's operating segments comprise the ownership of rental properties and the provision of real estate services, primarily to third-party commercial property owners. The accounting policies for each segment are consistent with those described in note 1 – significant accounting policies.

January 31, 2001	Rental Properties	Real Estate Services	Total
Identifiable segment assets	$ 1,072,784	$ 45,730	$ 1,118,514
Capital expenditures	13,378	2,579	15,957
Operating revenues	$ 217,913	$ 76,432	$ 294,345
Operating expenses	128,775	67,887	196,662
Rental and real estate services income	89,138	8,545	97,683
Depreciation and amortization	24,000	7,166	31,166
Operating income	$ 65,138	$ 1,379	$ 66,517

January 31, 2000	Rental Properties	Real Estate Services	Total
Identifiable segment assets	$ 1,037,988	$ 42,594	$ 1,080,582
Acquisitions in the year	339,988	2,121	342,109
Capital expenditures	18,931	936	19,867
Operating revenues	$ 168,732	$ 64,863	$ 233,595
Operating expenses	98,881	57,789	156,670
Rental and real estate services income	69,851	7,074	76,925
Depreciation and amortization	24,349	6,212	30,561
Operating income	$ 45,502	$ 862	$ 46,364

Operating income comprises net income excluding financing expense, corporate expense, gain on disposition of assets and income tax expense. Identifiable segment assets exclude cash and cash equivalents.

Real estate services segment revenues include $6.1 million (2000 – $5.6 million) and real estate services segment expenses include $4.7 million (2000 – $5.1 million) to reflect the provision of real estate services to the Company's owned property portfolio.

Revenues from the Federal Government under various leases exceed 10% of the Company's total revenues and represent approximately $40 million (2000 – $40 million) of revenues in the rental properties operating segment.

14. Joint ventures

The consolidated financial statements include the Company's proportionate interest in its activities conducted jointly with other parties as follows:

January 31	2001	2000
Assets	$ 73,434	$ 72,377
Liabilities	44,961	45,673
Revenues	11,630	41,293
Expenses	8,460	35,169
Net income	3,170	6,124
Cash provided by operating activities	4,236	8,793
Cash used in financing activities	1,026	842
Cash used in investing activities	1,248	3,004

The Company is contingently liable for certain of the joint venture obligations of its co-venturers in the joint ventures. The assets of each of the joint ventures are sufficient for the purpose of satisfying such obligations.

15. Commitments and contingencies

The Company has obligations as lessee under long-term leases for land up to the year 2067. Other leases for office facilities and equipment exist for periods not exceeding five years. The leases for land and office facilities generally contain escalation clauses requiring adjustment of rents at various dates and provide for the payment of real estate taxes and other expenses. Future minimum lease payments excluding executory costs under long-term leases as at January 31, 2001, are as follows:

Year ending January 31	
2002	$ 4,878
2003	3,676
2004	3,312
2005	2,888
2006	2,289
Thereafter	156,996
	$ 174,039

The cost to complete the property under development is approximately $100 million.

The Company has letters of credit of $1.2 million outstanding. The Company has a $10 million line of credit of which $8.8 million is unused at year-end.

The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the Company.

16. Financial instruments

The Company is exposed to financial risks arising from fluctuations in interest rates which could cause a variation in earnings. The Company has no foreign exchange risk because it holds only Canadian dollar denominated assets and liabilities. As at January 31, 2001, the Company has no contracts involving derivative financial instruments.

Interest rate risk

A portion of the Company's debt is at floating rates and, as a result, the Company is exposed to changes in interest rates. Increases or decreases in these rates would decrease or increase the Company's earnings. As part of its risk management program, the Company endeavours to maintain an appropriate mix of fixed rate and floating rate debt and strives to match the nature and timing of lease inflows to financing thereon (notes 7 and 9).

Fair value

Fair values of financial assets and liabilities approximate amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. Where available, such as in the case of the Company's debt, public market information is used to express the fair value. When such information is not readily available, fair value is estimated using present value techniques and assumptions concerning the amount and timing of expected future cash flows and discount rates which reflect the appropriate level of risk for the instrument. The estimated fair values may differ in amount from that which could be realized in an immediate settlement of the instruments. As at January 31, 2001, the estimated fair value of the Company's secured debt at prevailing market interest rates is $598.4 million (2000 – $567.2 million) and the fair value of the Company's debentures, notes and preferred shares is $94.8 million (2000 – $97.7 million).

17. Comparative amounts

Certain comparative amounts have been reclassified to conform with the presentation for the current year.

18. Subsequent event

On April 23, 2001, the Board of Directors approved the transfer by a subsidiary of the Company of certain rental properties to O&Y Real Estate Investment Trust ("O&Y REIT") in connection with O&Y REIT's initial public offering. As consideration, it is expected that the Company will receive units of O&Y REIT, convertible debentures of O&Y REIT and cash. As a result, it is anticipated that the Company will own a majority of the units of O&Y REIT and, as a consequence, will consolidate its financial results with those of O&Y REIT following completion of the transaction. Any gain on the transaction will be recorded when realized. On completion, it is anticipated that O&Y REIT will advance two loans to subsidiaries of the Company – $40 million in connection with the Maritime Life Tower development and $55 million in connection with First Canadian Place.

corporate directory and investor information

Directors

Austin C. Beutel
President
Oakwest Corporation Limited
Toronto, Ontario

Tibor Donath
Partner
Bench & Donath
Toronto, Ontario

Abraham Fruchthandler
General Partner
FBE Limited
New York, New York

Stanley H. Hartt, O.C., Q.C.
Chairman
Salomon Smith Barney Canada Inc.
Toronto, Ontario

Frank Hauer
President
O&Y Properties Corporation
Toronto, Ontario

Jason Hendeles
President
A Technology Company, Inc.
Toronto, Ontario

The Honourable Marc Lalonde, P.C., O.C., Q.C.
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Stikeman, Elliot
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Samuel W. Linhart, F.C.A.
Chairman of the Board
Merit Properties Group, L.L.C.
Phoenix, Arizona

Philip Reichmann
Chief Executive Officer
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President
Maureen Sabia International
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Albert Schonkopf
President
Crown Group of Companies
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Walter Zwig
Corporate Director
Toronto, Ontario

Corporate Officers

Philip Reichmann
Chief Executive Officer

Frank Hauer
President

Raghunath Davloor
Chief Financial Officer

John Levitt
Senior Vice-President,
Business Development

Randy Northey
Senior Vice-President,
General Counsel and Secretary

Jan Sucharda
Senior Vice-President,
Asset Management

Floriana Cipollone
Vice-President, Corporate Planning
and Strategy

Maria Rico
Vice-President, Finance

O&Y Enterprise Officers

Stuart Lazier
President

Business Group Presidents

Bill Bryck
President, Facilities Management
Services

Geoffrey Harrison
President, Commercial Management
Services

Michael Mackenzie
President, Retail Management Services

Stock Exchange Listing

Toronto Stock Exchange (TSE)

Stock Trading Symbol

Common Shares: OYP
Convertible Debentures: OYP.DB

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(for change of address, registration
or other shareholder enquiries)
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Auditors

Deloitte & Touche LLP
Chartered Accountants
Toronto, Ontario

Annual Meeting of Shareholders

The Annual Meeting of Shareholders of O&Y Properties Corporation will be held at 2:30 p.m. Toronto time on Thursday, July 26, 2001, at the TSE Auditorium, The Exchange Tower, 130 King Street West, Toronto, Ontario, Canada.

corporate offices

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